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State of Utah

Department of Commerce

Division of Public Utilities

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Recommendation

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Artie Powell, Director

Brenda Salter, Utility Technical Consultant Supervisor

Paul Hicken, Technical Consultant

Mark Long, Utility Analyst

Joanna Matyjasik, Utility Analyst

Date: May 21, 2020

Re: **Docket No. 20-050-01**, 2021 UUSF Recommendation for Navajo Communications Company, Inc.

Recommendation (No Action Required)

The Utah Division of Public Utilities (Division or DPU) recommends no change in the Utah Universal Service Fund (UUSF) assistance to Navajo Communications Company, Inc. (Navajo or Company). The Public Service Commission of Utah (PSC or Commission) is currently not paying any assistance. Based on the Company's 2019 Annual Report the Company does not qualify for UUSF payments in the 2021 calendar year.

Issue

The Division has reviewed Navajo's annual report received on April 15, 2020. Pursuant to PSC Rule R746-8-401(4) the Division has determined that no adjustments are necessary to the UUSF eligibility for Navajo.

Background

PSC Rule R746-8-401 requires the DPU to make annual recommendations to the PSC for adjustments to the monthly UUSF distribution to each provider based on an established Federal Communications Commission rate of return and the provider's financial information from its last Annual Report filed the Commission. This memo details why the DPU recommends no change to the UUSF distribution for Navajo Communications Company, Inc.

Discussion

In calculating the UUSF eligibility for Navajo, the Division noted the following:

- 1) Depreciation – Navajo utilizes group asset depreciation. PSC Rule R746-8-401 is currently being revised to establish a method for periodically revising depreciation rates when a company chooses to use group asset depreciation. Changes to this rule may impact Navajo depreciation expense and subsequent UUSF funding in future periods.
- 2) Accumulated Deferred Income Tax (ADIT) – Navajo reported a substantial change in accumulated deferred income taxes for 2019. This affects the company's rate base and may affect future UUSF distributions. The Commission has not ruled how to address this issue for companies with no UUSF support.
- 3) Accumulated Depreciation – Navajo reported more than \$4.57 million of accumulated depreciation. Since over 95 percent of the company's assets are fully depreciated, there is very little rate base left as a basis for return on investment.

Conclusion

The DPU recommends no change to the Utah USF distribution for Navajo Communications Company, Inc.

Cc: Jessica Matushek, Director of Accounting, Frontier Communications